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Credit Abuse Resistance Education (CARE) Program

This Credit Abuse Resistance Education (CARE) Program presentation was created by Lindsay Fong, Multimedia Training Specialist, at the U.S. Bankruptcy Court – California Southern.

(It has been modified from a presentation originally created for the CARE Program by **Carol Kenner**, a retired Bankruptcy judge from the District of Massachusetts.)

Additions, deletions, and/or corrections to this presentation should be forwarded to Lindsay Fong at this e-mail address:

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You also can contact him at (619) 557-2676.

What do you spend money on?



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Purpose:

This slide helps to gain the students' interest and to jump-start a discussion about the difference between spending on *wants* and spending on *needs*. From this beginning, the topic can be turned to credit card use and credit abuse.

Suggested script:

Teens are constantly bombarded with advertisements to buy and to spend money. These ads most commonly appear in magazines or on billboards; they can be found on television, on the Internet, or in movie theatres before the film starts playing.

Much of the spending by young people also can be attributed to peer pressure. They buy things because their friends already have one or it would be very cool to own one.

Are the items you buy
things you **need**
or
things you **want**?

Purpose:

This slide brings the *needs* versus *wants* issue to the students' attention and forces them to think about the differentiation.

Suggested script:

Teens often can't always differentiate their spending between things they **want** versus things they **need**. Especially if they have credit cards, overspending on things that they **want** easily may cause them to quickly run up their credit card balances.

How do you pay for what you want?



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Activity:

Solicit responses from the students about various methods of payment they use for their purchases. You also may want to discuss the advantages and disadvantages of each payment method mentioned.

For example, some credit card **advantages**:

- Convenience – buying without carrying a lot of cash; paying for things over time when you don't have enough cash
- Being able to enjoy purchases while paying for them
- Limited liability - \$50 limit
- Special consumer protections, such as extended warranties and rewards for usage, such as air mileage, cash rebates, gas, sports equipment

Some credit card **disadvantages**:

- If your credit card payment record is poor, your credit rating will suffer. (A poor credit rating means credit will cost you more; you'll pay higher interest or you may be denied credit entirely.)

For “Big Ticket” Items

Unless you’ve saved
lots of **cash**...



...you’ll probably use a
credit card.

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Suggested script:

Unless you’ve saved a lot of cash, you very likely will use a credit card to purchase those “big-ticket” items: stereos, mp3 players, TVs, digital cameras, etc.

Stores and merchandisers make it very easy to charge a purchase and to carry it home that same day. Internet merchandisers too have simplified the buying process and have made buying online easy.

Many fast-food restaurants now accept credit cards as a means of payment. Some vending machines are now modified to accept payment by credit card.

So in everyday life, charging your purchases soon becomes a force of habit. You now don’t think twice about using a credit card to pay for even the smallest items.

Studies have shown that when purchasers use credit cards, they tend to spend more than they would had they used cash.

True or False?

1. You must be 18 or older to obtain a credit card in your own name.

Purpose:

This 11-question quiz on the following slides helps to clarify student misconceptions about credit and credit cards. The questions also can stimulate discussion about related credit topics, such as APR, credit reports, etc.

Presenters should feel free to add their own personal knowledge as it is applicable to each slide topic.

Suggested script:

What do you know about credit cards?

Take this 11-question quiz to test your knowledge. Ten questions are *True* or *False*; the last question is a multiple-choice question. The answer to each question appears on the very next slide.

TRUE

1. Before you become 18, you may obtain a credit card in which an adult is the authorized user.

Once you're 18, you can legally incur debt in your own name.

True or False?

2. All credit card companies charge the same annual percentage rate (APR) of interest on the balance you owe.

19.5%

23% APR

Activity:

This might be a good time to discuss annual percentage rates (APRs).

FALSE

2. Different banks charge different rates.

Also, other important terms vary
(*e.g.*, annual fees, late fees, grace
periods)

Activity:

You may want to:

- Define the term *grace period*
- Discuss the various credit card fees that banks might charge (such as annual fees, cash advance fees, and late fees, to name a few)

True or False?

3. If you pay your credit card balance on time and in full each month, it doesn't matter what rate the bank charges on your credit card.

TRUE

3. Because you pay interest on the **unpaid** amount each month, you never pay any interest charge **if** you pay the entire amount due each month.

Banks hate it when you do this!

True or False?

4. You pay no interest on a debit card purchase.

TRUE

4. A debit card works like a check.
Money is instantly deducted from your
checking account.



Your ATM card
probably serves a
debit card.

Activity:

If time permits, discuss the advantages and disadvantages of using a debit card for purchases.

True or False?

5. Everyone over age 18 has a credit report.

False

5. Credit reports exist only for people who have established a credit history.

Having ***no*** credit history can have adverse consequences.

Activity:

Discuss why having no credit history may have adverse consequences.

If time permits, discuss how one can establish a good credit history.

True or False?

6. If you are late in making a few credit card payments, the interest rate you pay may increase sharply.

TRUE

6. For example on one user's credit card, the rate jumped from
4.9% to **24%**
when one payment was late!
(Late charges also can accrue.)

Activity:

This may be a good time to discuss:

- “Teaser” interest rates that credit card companies use to lure new customers
- How “teaser” rates can increase substantially when customers miss a payment or make a late payment
- Universal default penalties - unexpected and dramatic spike in credit card interest rates for missing a payment, even if they missed a payment *on a different card issued by a different company*

True or False?

7. Missing just one or two credit card payments won't hurt your credit rating.

FALSE

7. Missing a payment is noted on your credit report. Negative information such as this can legally remain on your credit report for up to 7 years.

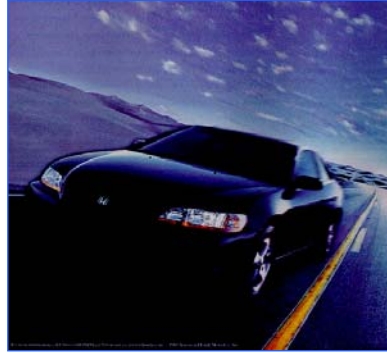
Activity:

Discuss:

- What kinds of information may appear on credit reports
- How a bad credit rating can adversely affect later activities such as applying for a mortgage when purchasing a home.

True or False?

8. If you apply for an auto loan, the lender will probably review your credit report.



TRUE

8. Lenders almost always will review your credit report.



Visit

AnnualCreditReport.com for a free copy of your credit report.

Activity:

Discuss:

- Why it is important to regularly review credit report for errors
- AnnualCreditReport.com
- How in most states on an annual basis, people can get free copies of their credit reports from the three credit-reporting agencies

FICO Credit Scores

- A score determined by your past use of credit, as recorded by the three credit-reporting agencies
- A 3-digit number between 300 & 850
- Created by Fair Isaac Corporation

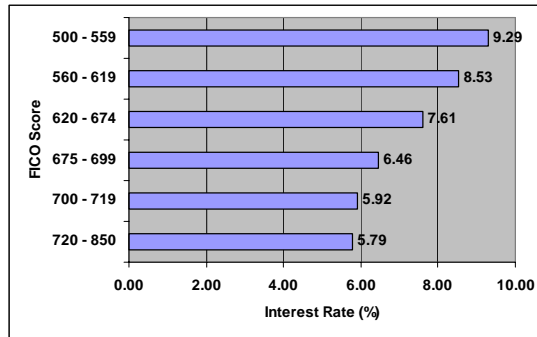
You have **three** FICO scores, one from each credit-reporting agency.

Purpose:

This slide introduces the concept of the FICO credit score.

FICO Credit Scores (continued)

- Used by lenders to determine your interest rate
- Lower FICO score = **higher** interest
- Scores >700 = **lower** interest



Average interest rate for a \$200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

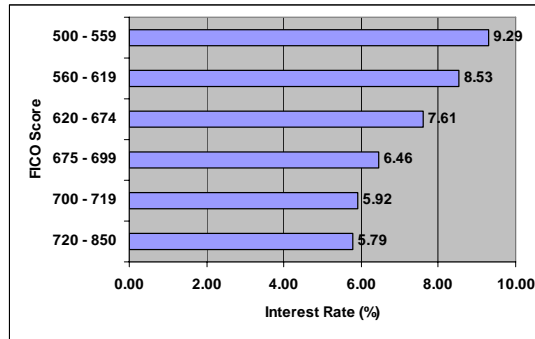
Purpose:

This slide visually shows how low FICO scores result in higher interest rates.

FICO Credit Scores (continued)

The cost difference between the **highest** and **lowest** credit scores for the \$200,000 loan:

- \$478 per month
- \$5,736 per year
- \$172,221 for the entire 30-year loan



Average interest rate for a \$200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

This slide shows a calculation of the cost difference between the highest and lowest credit score for a \$200,000 loan.

FICO Credit Scores (continued)

- Also used by lenders to decide:
 - Whether to approve your credit application
 - Whether to increase your credit limit
 - How to treat you if you make a very late payment

FICO scores are **not** part of your credit report.
Obtain your scores; visit www.myfico.com

Purpose:

Students should be aware of:

- Other ways FICO scores are used
- the fact that obtaining a credit report does not automatically entitle you to your FICO score. Usually, one must pay to receive your FICO scores.

True or False?

9. When you apply for a job, your prospective employer may review your credit report.



TRUE

9. A prospective employer
can review your credit report
if you give written authorization.

*More and more employers
are checking credit reports
of potential employees.*

Activity:

Discuss why employers now are checking the credit reports of prospective employees.

True or False?

10. Bouncing just one check won't cause you to have credit problems.

FALSE

10. If you bounce a check, your bank may put your name in Chex SystemsSM.

You could be “blacklisted” for up to five years. This might mean you may not be able to use a checking account.

Q: What is Chex Systems?

A: The Chex Systems, Inc network is comprised of member financial institutions that regularly contribute information on mishandled checking and savings accounts to a central location.

ChexSystemsSM shares this information among member institutions to help them assess the risk of opening new accounts. ChexSystemsSM shares information with the member institutions only and does not decide on new account openings.

Resource: <https://www.consumerdebit.com/consumerinfo/us/en/index.htm>

Multiple Choice

11. The average college undergraduate owes credit card debt of:

- (a) \$500
- (b) \$1,500
- (c) \$3,000
- (d) \$5,000

Answer: C

The *average* college student
owes about
\$3,000
in credit card debt.

Tips: Establishing Credit

- Establish good credit by
 - Using a checking account or a debit card
 - Paying bills in full and on time
- Take out a small loan and repay it in a timely manner to establish a good credit record
 - Use a parent as co-signer

Purpose:

This slide shows some suggested ways of establishing credit before obtaining a credit card.

The following slides provide other tips for:

- Obtaining a credit card
- Determining if credit is the right choice
- Using a credit card
- Maintaining your credit card
- What to do if you have credit card debt

Tips: Determine if Credit is for You

Before you make a purchase using credit, determine:

- How much the purchase will really cost you
- Whether you can actually afford the purchase
- If it is better to wait and pay in cash

Suggested script:

Sometimes you have to pay for the convenience of using credit – and sometimes it can cost a lot!

For example, a 4-year car loan at a lower interest rate can cost you more overall than a 3-year car loan at a higher interest rate. Other factors, such as the amount of the down payment, also will make a difference.

Tips: Obtaining a Card

- Get only one credit card



- Resist opening a new credit card account for the enticing “free gifts”

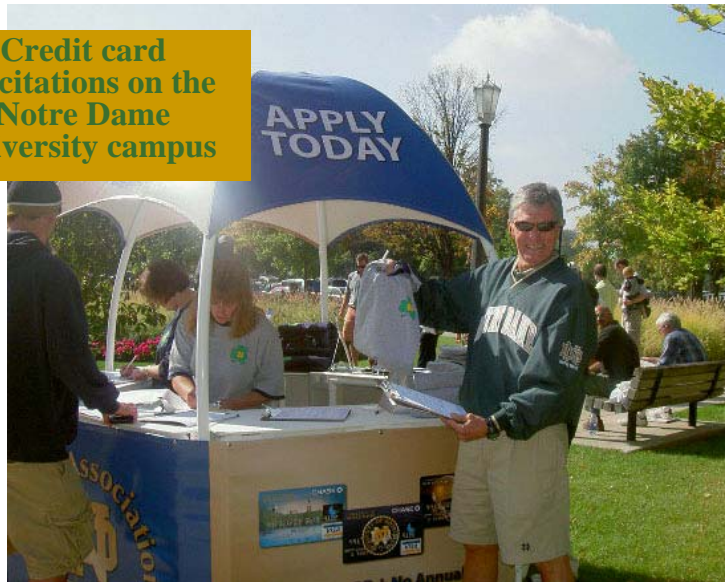


Activity:

It may be helpful to discuss:

- The wisdom of obtaining only one or two credit cards
- Why the gifts are not really free

**Credit card
solicitations on the
Notre Dame
University campus**



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To prove the point about the “free gift” from the previous slide, Judge Hargrove actually found credit card solicitations while visiting his alma mater, Notre Dame University.

He’s shown here holding up one of the free t-shirts that this credit card company was giving away for signing up.

Tips: Obtaining a Card (continued)

- “Shop” for a credit card with the best terms that suit you
 - Read and understand the terms in the disclosure
 - Pay close attention to various late fees and penalties
- **ANNUAL MEMBERSHIP FEE:** Refer to your statement in the month in which the fee is billed.
 - **RENEWING YOUR ACCOUNT:** You may have your annual membership fee credited to your account if you close your account within 30 days from the mailing or delivery date of the statement containing the fee, even if you use your card during that period. You may call the Customer Service number or write to the Customer Service address on your statement during this 30 day period and your account will be terminated; we will credit your account for the amount of the annual fee.
 - **ANNUAL PERCENTAGE RATE:** Refer to the Rate Summary section of this statement. Your periodic rates and APRs may vary.
 - **RATE AND ACCOUNT SUMMARIES:** The purchase and advance features of this account may be listed in the Rate Summary Section of this statement under the following titles: Standard Purch, Purch/Adv, Standard Adv, and various numbered Offers. The Account Summary section of this statement includes on the PURCHASES line subtotals for all purchase features, and on the ADVANCES line subtotals for all advance features, of the Previous Balance, new Purchases & Advances, Payments & Credits, FINANCE CHARGE and New Balance amounts.
 - **PERIODIC RATES:** (D) and (F) indicate a daily periodic rate. (M) indicates a monthly periodic rate.

Activity:

It may be helpful to:

- Discuss information found in the disclosure, such as annual fees, finance charges, annual percentage rates (APRs)
- Remind students that a low introductory rate does not necessarily mean the best terms. If you're going to carry a balance on your card from month to month, the fees and penalties may be more critical than the initial interest rate. If the card has high fees, a short grace period, or a universal default policy, you may want to keep shopping for a “friendlier” card.

“Shopping” for a Card

- Consider other credit products (e.g., prepaid cards and secured credit cards)

- Evaluate whether a rewards card is worth any extra fees and costs



Worth mentioning:

Rewards cards – those that give airline miles, money back, points towards pre-selected products – typically carry higher interest rates. (Companies have to pay for those rewards somehow.)

Unless you're paying off your credit card bill monthly and not carrying a balance, you're better off avoiding rewards cards and shopping for the lowest interest rate.

Tips: Using Your Card

- Limit credit card use for essential purchases only (*i.e.*, **needs**, not **wants**)
- Keep track of where your cards are
 - If you hand a credit card to a merchant, try to keep it in view
- Try to pay the **entire** amount due each month by the due date

Activity:

If time permits, discuss:

- **Credit card skimming** -- which is store employees covertly running a credit card through an electronic device to capture the credit card number from the card's magnetic strip. The captured credit card number is then used to make unauthorized purchases.

Tips: Using Your Card (continued)

- Don't max out on your credit limit
 - Watch card balances to avoid overlimit fees
 - Keep your card balance below 30% of your limit
- Try to avoid cash advances



Tips: Credit Card Debt

- Stop charging purchases
 - Pay cash, write a check, or use a debit card
 - Avoid store charge cards



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Activity:

Remind the audience that “If you can eat it or drink it, don’t charge it.” A good rule of thumb is not to charge anything that is less than \$10.

If time permits:

- Discuss why store cards can entice you to charge more
- Mention that interest rates on store charge account balances are often higher than for universal cards (such as Visa and MasterCard)

Tips: Credit Card Debt

- Stop charging purchases
 - Pay cash, write a check, or use a debit card
 - Avoid store charge cards
- Calculate how long it will take to pay off credit cards.
 - Visit Bankrate.com
- Make a plan to pay debt and stick to it

Activity:

Remind the audience that “If you can eat it or drink it, don’t charge it.” A good rule of thumb is not to charge anything under \$10.

If time permits:

- Discuss why store cards can entice you to charge more
- Mention that interest rates on store charge account balances are often higher than for universal cards (such as Visa and MasterCard)

Tips: Credit Card Debt (continued)

- Pay more than just the minimum payment amount
- Ignore offers to skip payments
 - Interest continues to accrue on unpaid balance
- Pay higher-interest cards first, but don't miss any payments on any card

Tips: Maintaining Your Card

- Monitor the interest rate section on your monthly statement

Rate Summary				Days This Billing Period: 031
	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	ANNUAL PERCENTAGE RATE
PURCHASES				
Standard Purch	\$0.00	0.04586%(D)	16.740%	16.740%
ADVANCES				
Standard Adv	\$0.00	0.05956%(D)	21.740%	21.740%

Worth mentioning:

- Read the fine print on notices from your credit card company. Lenders need to give you only 15 days notice to increase that “fixed rate” – and they don’t need a reason.
- Additionally, some discussion exists as to whether canceling unused credit cards adversely affects your credit. Some lenders consider unused cards a factor in extending credit. Time permitting, you may want to discuss whether or not it is a good idea to cancel unused credit cards.

Tips: Credit Reports

80% of all credit reports contain mistakes!

- Check your credit reports regularly
 - Visit [AnnualCreditReport.com](https://www.annualcreditreport.com) for free copies
- Contact the credit-reporting agency to correct any inaccurate information or errors

Worth mentioning:

- Credit reporting agencies are not infallible. They too can make mistakes. By checking your credit reports regularly, you can catch any errors that may appear. It is important for your credit history that you make efforts to have the agency fix any errors you may uncover.

A Warning Sign of Credit Abuse

You pay credit card bills
with other credit cards!

This is known as *credit kiting*.

Activity:

- Solicit from students other ways that they might recognize that they are in trouble with their credit cards

Some Web Resources

- Smartmoney.com

Click on *Personal Finance > Debt Management*

- Cardweb.com
- ConsumerDebt.com
- AnnualCreditReport.com
- MyFICO.com
- Bankrate.com

Activity:

- Recommend to students other helpful Web sites or printed resources

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A WEEKLY ROUNDUP OF CARTOONS

